

**Finance Committee
Oct. 21, 2010, Regular Meeting**

Draft Minutes

Members Present: Committee Chairman Ted Martland
 Louis Auletta
 Timothy Griswold
 Ron Van Winkle

CRRRA Staff Present: Tom Kirk, President
 Jim Bolduc, Chief Financial Officer
 Jeff Duvall, Director of Budgets and Forecasting
 Nhan Vo-Le, Director of Accounting Services
 Moirra Benacquista, Secretary to the Board/Paralegal

Also Present: Jeff Roude and William Reynolds of Bollam, Sheedy, Torani & Company
 (present by telephone from 9:44 a.m. – 10:00 a.m.); Jim Sandler of
 Sandler & Mara.

1. Approval of Minutes of the June 17, 2010, Finance Committee Meeting

Chairman Martland requested a motion to accept the minutes of the June 17, 2010, Finance Committee meeting.

The motion to approve the minutes was made by Director Griswold and seconded by Director Auletta. The minutes were approved unanimously by roll call.

2. Approval of Minutes of the Sept. 23, 2010, Finance Committee Meeting

Chairman Martland requested a motion to accept the minutes of the Sept. 23, 2010, Finance Committee meeting.

The motion to approve the minutes was made by Director Van Winkle and seconded by Director Griswold. The minutes were approved unanimously by roll call.

RESCHEDULING THE FINANCE MEETING FOR NOVEMBER

Director Griswold noted the November Finance Committee meeting is scheduled on Nov. 11, 2010, which is Veteran's Day. After some discussion the Committee agreed the meeting will be held on Nov. 12, 2010 to avoid scheduling conflicts.

INFORMATIONAL SECTION

Mr. Bolduc said the cash flow analysis for the Mid-Connecticut Project has been provided. Director Griswold said under the energy payments for December the rate drops by 50%. Mr. Bolduc explained when the Enron transaction occurred the deal which originally sold

power through CL&P for about 8.5 cents was reconstructed. He said the plant produces about 500 gigawatts with the residual being sold after reconstruction at 3.3 cents. He explained when Enron went bankrupt CRRA acquired access to the first 250 gigawatts of production. Mr. Bolduc said CRRA sold that power in a five year deal to Constellation Energy for about 7.3 cents. He said anything over 250 gigawatts remained at CL&P for 3.3 cents. Mr. Kirk said this is why there was a drop a little after mid-year when the 250 gigawatt production was hit and CRRA dropped to the lower production rate for the remainder of the year.

Director Griswold said he would expect the cash flow to correspond on the energy payment line into January. Mr. Bolduc said another factor is the seasonality of the waste stream. Chairman Martland asked if December is a bad month. Mr. Kirk said December starts dropping in terms of waste flow. Director Griswold asked if that drop in the rate translates into a lower income stream. Mr. Kirk said CRRA makes about 500 gigawatts and the price change occurs after 250 gigawatts, usually in January or February where the first 250 has been reached. He said it is a different date every year. Mr. Kirk said when the Constellation and CL&P contracts expire and a new bid goes out management will most likely do something much simpler.

EXECUTIVE SESSION

Chairman Martland requested a motion to enter into Executive Session to discuss personnel matters. The motion was made by Director Van Winkle and seconded by Director Griswold. The motion previously made and seconded was approved unanimously by roll call. Chairman Martland requested that the following people participate in the Executive Session, in addition to the Committee members:

Jeff Roude, Bollam, Sheedy, Torani & Company
Will Reynolds, Bollam, Sheedy, Torani & Company

The Executive Session commenced at 9:50 a.m. and concluded at 10:05 a.m.

The meeting was reconvened at 10:05 a.m., the door was opened, and the Board secretary and all members of the public were invited back in for the continuation of public session.

DISCUSSION CONCERNING THE AUDIT

Director Van Winkle said the Committee was concerned that there was no management letter to address the outstanding MDC issues. He said there was a draft letter however, it was not finalized. Director Van Winkle said the auditors believe there should be a management letter to address these issues. Director Auletta said the auditors were specifically concerned that the inventory issues be covered. Director Van Winkle said management's judgment is needed for some of these items. He said the auditors are suggesting this is an important issue which would normally go in a management letter.

Director Van Winkle said the issue on the table is whether the management letter should identify and comment on the MDC issues. He said the letter does not have to resolve the issue it has to identify that there is a concern which needs to be dealt with. Director Martland said it was partially his impression that the auditors were critical concerning certain procedures which is the

aspect the Committee is interested in hearing about. Mr. Bolduc said he would circulate the draft to the Committee.

Director Griswold said the Board often cuts the budget presented by MDC drastically. He asked if there are lingering issues about the inventory. Mr. Bolduc responded the FY'10 budget disclosed nothing unusual for the spare parts inventory. Director Griswold said after the Board makes cuts to the MDC budget there is often no further discussion.

Director Martland said the auditors also raised the issue that Ms. Vo-Le asked the auditors via e-mail the day before yesterday to perform an interim review of the balance sheet as of the end of September and a review of Wallingford for which another report is needed to management by January 11. Ms. Vo-Le said this request is part of the original scope of service included in the audit agreement. Director Auletta said the auditors had indicated specifically that they are not on contract to perform these reviews. Mr. Bolduc said that requirement is included in the scope of work. He said management will discuss this issue with the auditors.

3. Review and Recommend for Board Approval Resolution Regarding Reserve Analysis

Chairman Martland requested a motion regarding the above-captioned item. Director Van Winkle made the following motion:

WHEREAS, the FY 10 Mid-Connecticut actual revenues exceed the actual expenses resulting in a surplus of \$5,778,936 which, as stated in the MSA, is to be used in the FY 12 budget to offset expenses; and

WHEREAS, the Authority has recorded the postclosure liabilities on its financial statements for the Shelton, Wallingford and Waterbury landfills and has reserved sufficient funds; and

WHEREAS, the Authority plans to consolidate all of its landfill post-closure reserves from closed Projects into a distinct Division; and

WHEREAS: the Authority has recorded the postclosure liabilities on its financial statements for the Hartford Landfill and has estimated its closure liabilities for the Hartford Landfill and has determined that an additional \$1,000,000 contribution is needed to meet the postclosure liabilities and that the Hartford Landfill Closure Reserve is overfunded by an estimated \$1,000,000; and

WHEREAS, the Authority has several reserves that need to be closed and dissolved due to their depletion schedule; and

WHEREAS: the Authority plans to consolidate its non-landfill operating reserves from closed Projects into the Property Division; and

WHEREAS: the Mid-Connecticut Project is entering its last 12 month Fiscal Year and the Authority is executing the planned reduction of the Mid-Connecticut Project's

Renewal & Replacement Fund, Operating & Maintenance Fund, General Fund, and Debt Service Stabilization Reserve; and

WHEREAS: the Authority has performed capital planning needs for the purchase of “rolling stock“ and Facility maintenance for the Mid-Connecticut Project and has determined that the Facility Modification Reserve is underfunded and the Rolling stock Reserve has excess funds of \$1,440,000; and

WHEREAS: the Authority has performed an annual review of the Mid-Connecticut Project’s Risk Fund Reserve and Post Litigation Reserve and based on favorable insurance bids and a reduction in the projected litigation funds needed to complete ongoing settlement negotiations, these reserves can be reduced by \$1,475,000 and \$480,000 respectively; and

WHEREAS: the Authority has performed a Wallingford end of Project review and has determined that the Risk Fund Reserve is under funded by \$116,000; and

WHEREAS: the Mid-Connecticut Project’s energy revenues are used to offset the Project’s cost of services and the Energy Purchase Agreement that represents these revenues is expiring in FY12 and the Authority has available a \$1,000,000 escrow account to support the FY 12 revenue stream.

NOW, THEREFORE, BE IT:

RESOLVED: That the Mid-Connecticut FY 10 surplus of \$5,778,936 be used to develop the FY 12 operating budget; and

FURTHER RESOLVED: that a Landfill Division be created and the funds from the Wallingford, Shelton, and Waterbury Post-Closure Reserves and the funds from the Wallingford, Shelton and Waterbury Landfill Trusts and the funds from the Shelton Landfill Future Use be transferred from their respective Project/Divisions to the Landfill Division at the end of Fiscal Year 11; and

FURTHER RESOLVED: that \$1,000,000 be transferred from the Hartford Landfill Closure Reserve to the Hartford Landfill Postclosure Reserve; and

FURTHER RESOLVED: that the Wallingford Project’s Future Use/Planning Reserve, Tip Fee Stabilization Reserve, and Customer Guarantee of Payment Reserve be closed and dissolved once their respective balances reach zero and that the Mid-Connecticut Project’s various Municipality Retained Subsidy Fund and the Bridgeport Project’s Risk Fund and be closed and dissolved now; and

FURTHER RESOLVED: that the Bridgeport Project’s Waterbury Closure Reserve be closed and dissolved and its funds be transferred to its Post Project Reserve; and

FURTHER RESOLVED: that the Bridgeport Project’s Post Project Reserve and the Wallingford Project’s Risk Fund, Wallingford Escrow reserve, and Project Closure reserves have their reserve names changed to denote their original Project and these reserves be transferred from their respective Projects to the Property Division; and

FURTHER RESOLVED: that the Mid-Connecticut Project's Debt Service Stabilization Reserve be closed and dissolved and any residual funds be used to offset Fiscal Year 12 debt payments; and

FURTHER RESOLVED: that the Mid-Connecticut Project's General Fund be closed and all fund transferred to the Debt Service Reserve Fund; and

FURTHER RESOLVED: that any funds in excess of \$1,500,000 in the Mid-Connecticut Project's Renewal & Replacement Fund and \$1,500,000 in the Mid-Connecticut Project's Operating & Maintenance Fund be transferred to the Facility Modification Reserve; and

FURTHER RESOLVED: that \$1,440,000 be transferred from the Rolling stock Reserve to the Facility Modification Reserve, and

FURTHER RESOLVED: that \$480,000 of the Post Litigation Fund and \$1,475,000 of the Risk Fund be used in Fiscal Year 12 cost of operation; and

FURTHER RESOLVED: that the \$1,000,000 in Select Energy Escrow Account be used to offset Fiscal Year 12 cost of operation, when the funds become available, and that the Hartford Landfill Post Closure Reserve be used as a temporary advance and be replenish by the Select Energy Escrow Account revenues once they become available; and

FURTHER RESOLVED: that \$116,000 be transferred from the Wallingford Project operating account to the Wallingford Project Risk Fund Reserve.

The motion was seconded by Director Auletta.

Mr. Bolduc said years ago CRRA had multiple reserves and accounts in different areas. He said the forms found in the write-up were created to keep the details for each separate and organized. He said the forms contain the account number and designation for each reserve or account. Mr. Bolduc said at the end of the year CRRA has net assets which cascade into three groups. He said the first is restricted assets which are restricted by contracts or bond indentures which the Board and management do not control.

Mr. Bolduc said Board designated assets are unrestricted funds which the Board has designated for specific purpose which can only be used for that purpose and can only be undesignated for a different purpose by the Board.

Mr. Bolduc said finally there are some unrestricted net assets which are basically funds for working capital and day to day costs. Mr. Bolduc said every October management goes through and performs these designations in order to prepare for the budget cycle.

Director Griswold asked if a Board designated fund would still be unrestricted. Mr. Bolduc responded yes.

Mr. Bolduc provided the Committee with an in-depth review of the resolves contained in the resolution.

Mr. Bolduc said the first resolve has to do with the way the MSA contracts work. He said every year a deficit or a surplus is run. Mr. Bolduc said according to the MSA's if a surplus is run it must be reflected in the budget in the year subsequent. He said for example the FY'12 budget will show a revenue source coming in from the FY'10 surplus which has the effect of reducing the net cost of operation. Mr. Bolduc said the surplus is placed in a Board designated account and starting next July 2011 that cash account will be used to pay bills.

Mr. Bolduc said the second resolve concerns a transformation issue. He said as CRRA evolves from the specific project orientation which was set up those residual funds were placed in a temporary property division because there are no longer specific projects. Mr. Bolduc said management is recommending that a landfill division be created which will host the post-closure dollars for the Shelton landfill and the Waterbury land trust. He said when the Hartford Project as currently defined expires; the Hartford and Ellington landfill's post-closure costs will go there as well. Mr. Bolduc said these funds will be reviewed periodically and will come to the Board for approval prior to spending of any of those funds. Director Griswold asked if these will still be separate sub-accounts. Mr. Bolduc said that is correct.

Mr. Bolduc said the third resolve involves moving \$1 million from the Hartford landfill closure to the Hartford post-closure to make sure when the project in Hartford completely expires that the post-closure is completely funded. Director Griswold asked if the landfill closure account will be required if the post-closure is fully funded. Chairman Martland said that account will disappear. Mr. Bolduc said when the landfill closure account is closed a reconciliation will be done and any excess funds will come back into that process and be used for reduction of tip fees or to offset costs.

Director Griswold asked how much money will be left after the \$1 million is moved. Mr. Bolduc said there is still about \$10-\$12 million left. He said there is still 2 years of closure to go. Mr. Kirk said those numbers change often as a big unknown factor is the cost for disposable cover material in the future.

Mr. Bolduc said the fourth resolve details obtaining authority to close the reserve for the Wallingford Project. He said in this case as the Wallingford Project is paid out the account will be closed. Mr. Bolduc said the tip fee stabilization is also part of those funds. He said there is roughly \$14.4 million in the tip fee stabilization fee with about \$3 million in other funds and \$800,000 concerning the post-closure reserve. He said this is a restricted GOP account and because it is still in a STIF account there may be some interest at the end which will be transferred back into the revenue account so the towns get the benefit. Mr. Bolduc said this information should have been in the resolve. The Committee accepted this change as a friendly amendment.

Chairman Martland asked how the repayment to the haulers is calculated. Mr. Bolduc explained the haulers put up a guarantee of payment (hereinafter refer to as "GOP") based on two months of tonnage. He said once their receivables have been paid the GOP is released.

Mr. Bolduc said the fifth resolve concerns the Waterbury Project closure. He said the dollars are being transferred from the closure to the post-project reserve which will then be monitored as there are some legacy issues.

Mr. Bolduc said the sixth resolve concerns changing names.

Mr. Bolduc said the seventh resolve involves the debt service stabilization for the Mid-Conn Project. He said \$4 million in the fund was used in FY'10 to help defray some of the net costs of the Mid-Conn Project and helped reduce the tip fee. He said this Sept. 2010 the fund is down to \$399,000 which management is proposing be used to reduce tip fees in FY'12 at the end of this fiscal year.

Mr. Bolduc said the eighth resolve concerns one of the trustee accounts. He said the original trustee accounts need to be maintained until the bonds are paid off and the general fund can be moved into the debt service account to reduce the debt service in the last year.

Mr. Bolduc said the ninth resolve concerns the bonds which were set up back in the 80's. He said the first one funds renew and replacement and was required to be put into place in case the project did not have enough money to maintain the facility and keep it operating an another operating fund. Mr. Bolduc said currently there is a \$250,000 excess in each fund which management is recommending be used for the facility modification into the last year which will help defray the tip fee costs in FY'12.

Mr. Bolduc said the tenth resolve concerns the rolling stock reserve which is for the bigger pieces of equipment. He said management has determined there is roughly \$1.4 million in that account which is not currently needed which will be placed in the facility modification reserve.

Mr. Bolduc said the eleventh resolve concerns two Mid-Conn Project reserves for post-litigation concerning the Enron matter. He said the funds were specifically earmarked by the courts for use by CRRA to pursue debtors. Mr. Bolduc said management is waiting on a decision from a judge in Houston after which there may be some additional dollars from the remaining banks. He said the attorney's fees are paid by contingency out of the proceeds however; there were costs which were excluded for any outside experts and ongoing computer maintenance. Mr. Bolduc said at this point management feels leaving about \$200,000 in the account is sufficient with the remainder used to help the towns with their FY'12 tip fee. He said the risk fund concerns litigation and as a result of some settlements management decided the excess will be taken out of that account to defray tip fees as well.

Mr. Bolduc said the twelfth resolution concerns the electric purchase agreement. He said the \$1 million was configured when the companies which purchased the power wanted required a \$1 million escrow as they would be at risk for selling the power on a dispatch basis. He said the \$1 million has to stay in place until the end of the electric purchase agreement. Mr. Bolduc said that will also be used to defray the tip fee.

Mr. Bolduc said the final resolution concerns the Wallingford Project and basically involves moving \$160,000 to a risk fund which will be monitored and shared with the town on an ongoing basis.

Chairman Martland asked if the trustee account money is with the State with the trustee acting as a bank. Mr. Bolduc said the money is with the trustee in a State STIF account. He said management goes through a process to have that money requisitioned for various bills.

Director Auletta said with regard to the risk fund where the roughly \$1.5 million is coming from if management could briefly describe the analysis process. Mr. Bolduc said management is the custodian of the funds and information comes in from three different sources. He explained management begins the determination by holding discussions with the risk manager to see if any items or claims are outstanding. He said input from the Legal Director is obtained next concerning claims and litigation and lastly input from the Director of Operations and Environmental Affairs is sought.

Director Griswold said on page 21 the balance looks to be \$7.1 million however the bottom of that documentation paragraph says on July 5, 2010, CRRA received an analysis that \$20 million is no longer needed and states the reserve is sufficiently funded. He asked how management reconciles \$10.8 versus the \$7.1 million balance. Mr. Bolduc said when the analysis was done management was looking at future tip fees. He said the reserve was looked at and updated and this will be the second time money was taken out of that account. He said the money was taken out and the net cost of operations was reduced based on an engineering analysis for reduced tip fees back in 2006. He said management is still maintaining the electric turbine and the jets and dollars are being taken out for that maintenance Mr. Bolduc said clarification on that matter will be added for the full Board.

Chairman Martland thanked management for the analysis.

The motion was approved unanimously by roll call.

INFORMATIONAL SECTION

Mr. Bolduc provided in depth review of the Informational Section with the Committee.

Chairman Martland said revenues are \$800,000 below what is budgeted and administrative costs were far below what was budgeted for. Mr. Bolduc said the revenues are a function of the tons in the Mid-Conn Project and are down about 7,000 tons which equals quite a bit of money. He said management has characterized items which are clearly not administrative expenses this year in the budget which has led to lowering of those expenses. Mr. Bolduc said the reduced tonnage is across the board for all of the projects and is a reflection of the economy.

Director Van Winkle asked if the reduced tonnage is a result of the economy alone. Mr. Kirk said the reduction in tonnage is also partly due to recycling particularly in towns such as West Hartford which have changed to single stream. He said however, most of the reduction is due to the economy. He said the garbage production rate is a great indicator of the economy. Mr. Kirk said the Southern part of the State also deals with the problem of diversion despite minimum commitments. He said management negotiated with Wheelabrator to not charge CRRA for that put or pay because they are taking CRRA customers at a discount. Mr. Kirk said diversion will also be a problem at the Mid-Conn Project in the winter.

Director Griswold asked management to comment on the Essex waste transport. Management said that was a misprint as it should state Ellington and will be changed for the Board meeting.

Mr. Bolduc informed the Committee that the legal sheet provides information which keeps the Committee updated on legal spending. Director Griswold asked if the Halloran amount indicated that the firm's spending is well over what was originally budgeted. Mr. Kirk said that was correct however Board authorization to increase that budget is obtained on a quarterly basis.

Mr. Bolduc said periodic audits on the general fund are completed. He said one laptop was stolen at Constitution Plaza and as a result the policies were changed and tightened up. Mr. Bolduc said the building owner's security was informed and the incident was also reported to the State of Connecticut as CRRA is required to do.

EXECUTIVE SESSION

Chairman Martland requested a motion to enter into Executive Session to discuss personnel matters, pending litigation and pending RFP responses. The motion was made by Director Auletta and seconded by Director Griswold. The motion previously made and seconded was approved unanimously by roll call. Chairman Martland requested that the following people remain for the Executive Session, in addition to the Committee members:

Tom Kirk
Jim Bolduc

The Executive Session commenced at 11:16 a.m. and concluded at 11:40 a.m.

The meeting was reconvened at 11:40 a.m., the door was opened, and the Board secretary and all members of the public (of which there were none) were invited back in for the continuation of public session.

ADJOURNMENT

Chairman Martland requested a motion to adjourn the meeting. The motion made by Director Van Winkle and seconded by Director Griswold was passed unanimously.

The meeting was adjourned at 11:40 a.m.

Respectfully submitted,

Moira Benacquista
Secretary to the Board/Paralegal